



We are presenting the results for the first quarter of fiscal 2012, which ended on June 30, 2011.

- Net earnings for the quarter totalled \$126.6 million, an increase of \$14.9 million or 13.3% compared to \$111.7 million for the same quarter last fiscal year.
- Earnings before interest, income taxes, depreciation and amortization (EBITDA<sup>1</sup>) amounted to \$209.6 million, an increase of \$18.3 million or 9.6% in comparison to \$191.3 million for the same quarter last fiscal year.
- Revenues for the quarter amounted to \$1.639 billion, an increase of \$202.8 million or 14.1% in comparison to \$1.436 billion for the corresponding quarter last fiscal year.
- Basic earnings per share (EPS) of \$0.62 and diluted EPS of \$0.61 for the quarter, as compared to basic EPS of \$0.54 and diluted EPS of \$0.53 for the corresponding quarter last fiscal year.

(in millions of Canadian dollars (CDN), except per share amounts)  
(unaudited)

	June 30, 2011	For the three-month periods ended	
		June 30, 2010	March 31, 2011
Revenues	<b>1,639.0</b>	1,436.1	1,486.7
EBITDA	<b>209.6</b>	191.3	194.5
Net earnings	<b>126.6</b>	111.7	100.4
EPS			
Basic	<b>0.62</b>	0.54	0.50
Diluted	<b>0.61</b>	0.53	0.49

- In the United States (US), the average block market<sup>2</sup> per pound of cheese increased by US\$0.34 compared to the same period last fiscal year, increasing revenues and positively affecting EBITDA due to a better absorption of fixed costs.
- The increasing block market per pound of cheese in the US had a positive impact on EBITDA resulting from a favourable realization of inventories, while its relationship with the cost of milk as raw material was less favourable, negatively impacting EBITDA, as compared to the same quarter last fiscal year.
- The acquisition of DCI Cheese Company, Inc. (DCI Acquisition) on March 25, 2011 in the US contributed to revenues and EBITDA for a full quarter as compared to the same quarter last fiscal year.
- The appreciation of the Canadian dollar versus the US dollar and the Argentinian peso during the quarter impacted results by eroding approximately \$42 million in revenues and \$5 million in EBITDA.
- The Board of Directors reviewed the dividend policy and increased the quarterly dividend from \$0.16 per share to \$0.19 per share, representing an 18.8% increase. The quarterly dividend will be payable on September 19, 2011 to common shareholders of record on September 8, 2011.

<sup>1</sup> Measurement of results not in accordance with International Financial Reporting Standards (IFRS)

The Company assesses its financial performance based on its EBITDA, this being earnings before interest, income taxes, depreciation and amortization. EBITDA is not a measure of performance as defined by IFRS and consequently may not be comparable to similar measurements presented by other companies.

<sup>2</sup> "Average block market" is the average daily price of a 40 pound block of cheddar traded on the Chicago Mercantile Exchange (CME), used as the base price for cheese.

# Management's Discussion and Analysis

The goal of the management report is to analyze the results and the financial position for the quarter ended June 30, 2011. It should be read while referring to our condensed interim consolidated financial statements and accompanying notes for the three-month periods ended June 30, 2011 and 2010. The Company is reporting its results for the first time in accordance with International Financial Reporting Standards (IFRS) in the first quarter of fiscal 2012. The financial information for the comparative quarter has been restated or reclassified to conform to IFRS. A reconciliation of reported financial information to what had been reported under Canadian generally accepted accounting principles (CGAAP) to IFRS is included in Note 18 of the Consolidated Financial Statements. All dollar amounts are in Canadian dollars, unless otherwise indicated. This report takes into account material elements between June 30, 2011, and August 2, 2011, the date of this report, on which it was approved by the Company's Board of Directors. Additional information about the Company, including its Annual Report and Annual Information Form for the year ended March 31, 2011, can be obtained on SEDAR at [www.sedar.com](http://www.sedar.com).

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This report, including the "Outlook" section, contains forward-looking statements within the meaning of securities laws. These statements are based, among others, on the Company's current assumptions, expectations, estimates, objectives, plans and intentions regarding projected revenues and expenses, the economic and industry environments in which the Company operates or which could affect its activities, its ability to attract and retain clients and consumers, as well as its operating costs, raw materials and energy supplies, which are subject to a number of risks and uncertainties. Forward-looking statements can generally be identified by the use of the conditional tense, the words "may", "should", "would", "believe", "plan", "expect", "intend", "anticipate", "estimate", "foresee", "objective" or "continue" or the negative of these terms or variations of them or words and expressions of similar nature. Actual results could differ materially from the conclusion, forecast or projection stated in such forward-looking information. As a result, the Company cannot guarantee that any forward-looking statements will materialize. Assumptions, expectations and estimates made in the preparation of forward-looking statements and risks that could cause actual results to differ materially from current expectations are discussed throughout this Management's Discussion and Analysis and in the most recently filed Annual Report, which is available on SEDAR at [www.sedar.com](http://www.sedar.com). Forward-looking information contained in this report, including the "Outlook" section, is based on Management's current estimates, expectations and assumptions, which Management believes are reasonable as of the current date. You should not place undue importance on forward-looking information and should not rely upon this information as of any other date. Except as required under applicable securities legislation, the Company does not undertake to update these forward-looking statements, whether written or verbal, that may be made from time to time by itself or on its behalf, whether as a result of new information, future events or otherwise.

## OPERATING RESULTS

**Consolidated revenues** for the quarter ended June 30, 2011 amounted to \$1.639 billion, an increase of \$202.8 million or 14.1% in comparison to \$1.436 billion for the corresponding quarter last fiscal year. This increase was mainly due to the inclusion of the DCI Acquisition, a higher average block market per pound of cheese, and a more favourable dairy ingredients market in the USA Dairy Products Sector, as well as higher selling prices in relation to the higher cost of milk in the Canadian and Argentinian Divisions of the CEA Dairy Products Sector. The strengthening of the Canadian dollar compared to the US dollar and Argentinian peso negatively affected revenues.

**Consolidated earnings before interest, income taxes, depreciation and amortization (EBITDA)** for the first quarter of fiscal 2012 amounted to \$209.6 million, an increase of \$18.3 million or 9.6% in comparison to \$191.3 million for the same quarter last fiscal year. This increase is explained by the inclusion of the DCI Acquisition in the USA Dairy Products Sector, increased operational efficiencies and favourable market factors. Favourable selling prices in the Argentinian Division, mainly in the export market, and favourable dairy ingredients market conditions in our Canadian Dairy Products Division, also account for the increase.

## OTHER CONSOLIDATED RESULTS ITEMS

**Depreciation and amortization** for the first quarter of fiscal 2012 totalled \$24.6 million, a decrease of \$1.7 million compared to the same quarter last fiscal year. The strengthening of the Canadian dollar throughout the quarter compared to the same period last fiscal year mainly contributed to decreasing the depreciation expense.

**Net interest expense** for the three-month period ended June 30, 2011 decreased by \$0.4 million in comparison to the same period last fiscal year. The strengthening of the Canadian dollar during the quarter compared to the same period last fiscal year mainly contributed to decreasing the interest expense.

**Income taxes** for the first quarter of fiscal 2012 totalled \$52.2 million, reflecting an effective tax rate of 29.2% compared to 29.4% for the same quarter last fiscal year. The income tax rate varies and could increase or decrease based on the amount of taxable income derived and from which source, any amendments to tax laws and income tax rates and changes in assumptions and estimates used for tax assets and liabilities by the Company and its affiliates.

**Net earnings** totalled \$126.6 million for the quarter ended June 30, 2011 compared to \$111.7 million for the same quarter last fiscal year. This increase reflects the various factors analyzed in this report.

## SELECTED QUARTERLY FINANCIAL INFORMATION

(in millions of CDN dollars, except per share amounts)

Fiscal years	2012	2011				2010 <sup>1</sup>		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	1,639.0	1,486.7	1,542.1	1,560.6	1,436.1	1,384.2	1,497.3	1,482.7
EBITDA	209.6	194.5	191.1	211.4	191.3	175.5	183.5	174.7
Net earnings	126.6	100.4	112.1	125.8	111.7	99.1	104.3	94.5
EPS								
Basic	0.62	0.50	0.55	0.60	0.54	0.48	0.50	0.46
Diluted	0.61	0.49	0.54	0.60	0.53	0.47	0.50	0.45

<sup>1</sup> Based on CGAAP

### Consolidated selected factors positively (negatively) affecting EBITDA<sup>1</sup>

(in millions of CDN dollars)

Fiscal years	2012	2011		
	Q1	Q4	Q3	Q2
Market factors <sup>2</sup>	17.0	31.0	(15.0)	10.0
US currency exchange	(5.0)	(5.0)	(3.0)	(4.0)
Inventory write-down	-	(3.0)	-	-

<sup>1</sup> As compared to same quarter of previous fiscal year.

<sup>2</sup> Market factors include the average block market per pound of cheese and its effect on the absorption of fixed costs and on the realization of inventories, the effect of the relationship between the average block market per pound of cheese and the cost of milk as raw material, as well as the market pricing impact related to sales of dairy ingredients.

## LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

(in thousands of CDN dollars)

	For the three-month periods ended June 30	
	2011	2010
Cash generated from operating activities	122 955	154 261
Net cash generated from operating activities	14 913	115 067
Cash generated (used) for investing activities	4 266	(25 311)
Cash used by financing activities	(75 850)	(21 271)
(Decrease) increase in cash and cash equivalents	(56 671)	68 485

For the three-month period ended June 30, 2011, cash generated by **operating activities** amounted to \$123.0 million, a decrease of \$31.3 million in comparison to the \$154.3 million for the corresponding quarter last fiscal year. The decrease is primarily attributable to an increase in non-cash working capital items, as compared to the same period last fiscal year, which can be attributed to an increase in inventories and receivables resulting from a higher average block market in the US. Net cash generated from operating activities amounted to \$14.9 million in comparison to \$115.1 million for the corresponding quarter last fiscal year. This decrease is attributable to changes in non-cash working capital items and higher income taxes paid related to an increase in taxable income of prior fiscal years.

**Investing activities** were comprised mainly of additions to fixed assets in the amount of \$20.1 million and proceeds from the sale of the portfolio investment generated \$27.7 million during the first quarter of fiscal 2012.

**Financing activities** for the three-month period ended June 30, 2011 consisted of a decrease in bank loans totalling \$68.8 million, issuance of shares for a cash consideration of \$13.8 million as part of the stock option plan, as well as the purchase of share capital totalling \$20.8 million in accordance with a normal course issuer bid.

### Liquidity

(in thousands of CDN dollars, except ratio)

	June 30, 2011	March 31, 2011
Current assets	1,271,153	1,291,798
Current liabilities	837,836	943,006
Working capital	433,317	348,792
Working capital ratio	1.52	1.37

## Capital Management

The Company's capital strategy requires a well-balanced financing structure in order to maintain flexibility to implement growth initiatives while allowing it to pursue disciplined capital investments and maximize shareholder value.

*(in thousands of CDN dollars, except ratio and number of shares and options)*

	June 30, 2011	March 31, 2011
Cash and cash equivalents	19,235	77,491
Bank loans	100,945	170,589
Long-term debt	378,225	378,480
Shareholders' equity	2,148,891	2,072,635
Interest-bearing <sup>†</sup> debt-to-equity ratio	0.21	0.23
Number of common shares	203,933,185	203,830,505
Number of stock options	9,159,054	8,674,238

<sup>†</sup> Net of cash and cash equivalents.

As at June 30, 2011, the Company had \$19.2 million of cash and cash equivalents and available bank credit facilities of approximately \$602 million, \$100.9 million of which were drawn. Should the need arise, the Company could make additional financing arrangements to pursue growth through acquisitions.

Share capital authorized by the Company is comprised of an unlimited number of common and preferred shares. The common shares are voting and participating. The preferred shares can be issued in one or more series, and the terms and privileges of each class must be determined at the time of their issuance. No preferred shares were outstanding. As at July 25, 2011, 203,702,161 common shares and 9,142,178 stock options were outstanding.

## CONTRACTUAL OBLIGATIONS

The Company's contractual obligations consist of commitments to repay certain of its long-term debts, as well as certain leases of premises, equipment and rolling stock.

*(in thousands of CDN dollars)*

	June 30, 2011			March 31, 2011		
	Long-term debt	Minimum lease	Total	Long-term debt	Minimum lease	Total
Less than 1 year	-	15,469	15,469	-	15,978	15,978
1-2 years	-	13,447	13,447	-	13,339	13,339
2-3 years	110,000	11,288	121,288	-	12,037	12,037
3-4 years	48,225	9,650	57,875	158,480	10,045	168,525
4-5 years	220,000	7,947	227,947	-	8,738	8,738
More than 5 years	-	21,874	21,874	220,000	23,447	243,447
	378,225	79,675	457,900	378,480	83,584	462,064

## BALANCE SHEET

With regards to balance sheet items as at June 30, 2011, compared to those as at March 31, 2011, the main variance is due to a higher average block market per pound of cheese, which resulted in an increase to working capital items in our Dairy Products Division (USA).

## FOLLOW-UP ON CERTAIN SPECIFIC ITEMS OF THE ANALYSIS

For an analysis of off-balance sheet arrangements, guarantees, related party transactions, accounting standards, IFRS conversion plan which is now completed, critical accounting policies and use of accounting estimates, as well as risks and uncertainties, we encourage you to consult the comments provided in the 2011 Annual Report (pages 18 to 25 of the Management's Discussion and Analysis), since there were no notable changes during the three-month period ended June 30, 2011.

## **DISCLOSURE CONTROLS AND PROCEDURES**

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures. The Company's disclosure controls and procedures are designed to provide reasonable assurance that material information relating to the Company is made known to Management in a timely manner so that information required to be disclosed under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining internal control over financial reporting. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Chief Executive Officer and the Chief Financial Officer, together with Management, have concluded, after having conducted an evaluation and to the best of their knowledge, that, as of June 30, 2011, no change in the Company's internal control over financial reporting occurred that could have materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

## INFORMATION BY SECTOR

### CEA Dairy Products Sector

(in millions of CDN dollars)

Fiscal years	2012	2011				2010 <sup>1</sup>		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	970.2	921.2	995.2	993.8	927.0	876.5	960.2	963.6
EBITDA	125.3	113.0	126.0	132.8	122.1	117.7	115.4	112.3

<sup>1</sup> Based on CGAAP

#### Selected factors positively (negatively) affecting EBITDA<sup>1</sup>

(in millions of CDN dollars)

Fiscal years	2012	2011		
	Q1	Q4	Q3	Q2
Market factors <sup>2</sup>	3.0	1.0	2.0	2.0

<sup>1</sup> As compared to same quarter of previous fiscal year.

<sup>2</sup> Market factors include the international market pricing impact related to sales of dairy ingredients.

### Revenues

Revenues for the CEA Dairy Products Sector totalled \$970.2 million for the quarter ended June 30, 2011, an increase of \$43.2 million compared to \$927.0 million for the same period last fiscal year. This is mainly attributed to increased sales volumes in Argentina and higher selling prices in relation to the higher cost of milk in both Canada and Argentina, as well as a favourable dairy ingredients market in the Sector. These offset lower sales volumes in the fluid milk category in Canada, resulting from a decline in consumer milk consumption. In the other categories, sales volumes were stable compared to the same period last fiscal year. Additionally, increased sales volumes from the European operations contributed positively to revenues as compared to last fiscal year. During the quarter, the strengthening of the Canadian dollar versus the Argentinian peso eroded revenues by approximately \$10 million.

### EBITDA

For the quarter ended June 30, 2011, EBITDA totalled \$125.3 million, an increase of \$3.2 million or 2.6% compared to \$122.1 million for the corresponding quarter last fiscal year. Despite slightly lower sales volumes in the fluid milk category, the Dairy Products Division (Canada) EBITDA increased due to cost reductions and favourable dairy ingredients market conditions as compared to the same quarter last fiscal year.

EBITDA of the Dairy Products Division (Europe) increased slightly during the quarter as compared to the same period last fiscal year.

EBITDA of the Dairy Products Division (Argentina) increased slightly for the quarter as compared to the same period last fiscal year primarily due to increased sales volumes and favourable selling prices, mainly in the export market.

## USA Dairy Products Sector

(in millions of CDN dollars)

Fiscal years	2012	2011				2010 <sup>1</sup>		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	<b>636.5</b>	533.6	510.2	528.9	474.3	472.2	498.1	477.3
EBITDA	<b>80.8</b>	81.4	61.5	73.9	65.0	55.2	63.7	58.1

<sup>1</sup>Based on CGAAP

### Selected factors positively (negatively) affecting EBITDA<sup>1</sup>

(in millions of CDN dollars)

Fiscal years	2012	2011		
	Q1	Q4	Q3	Q2
Market factors <sup>2</sup>	<b>14.0</b>	30.0	(17.0)	8.0
US currency exchange	<b>(5.0)</b>	(5.0)	(3.0)	(4.0)
Inventory write-down	-	(3.0)	-	-

<sup>1</sup>As compared to same quarter of previous fiscal year.

<sup>2</sup>Market factors include the average block market per pound of cheese and its effect on the absorption of fixed costs and on the realization of inventories, the effect of the relationship between the average block market per pound of cheese and the cost of milk as raw material, as well as market pricing impact related to sales of dairy ingredients.

### Other pertinent information

(in US dollars, except for average exchange rate)

Fiscal years	2012	2011			
	Q1	Q4	Q3	Q2	Q1
Average block market per pound of cheese	<b>1.736</b>	1.695	1.590	1.571	1.397
Closing block price <sup>1</sup> per pound of cheese	<b>2.130</b>	1.625	1.340	1.760	1.420
Average whey market price <sup>2</sup> per pound	<b>0.520</b>	0.450	0.390	0.380	0.390
Spread <sup>3</sup>	<b>0.094</b>	0.126	0.116	0.118	0.121
US average exchange rate to Canadian dollar <sup>4</sup>	<b>0.969</b>	0.986	1.014	1.039	1.027

<sup>1</sup>Closing block price is the price of a 40 pound block of cheddar traded on the Chicago Mercantile Exchange (CME) on the last business day of each quarter.

<sup>2</sup>Average whey powder market price is based on Dairy Market News published information.

<sup>3</sup>Spread is the average block market per pound of cheese less the result of the average cost per hundredweight of Class III and/or Class 4b milk price divided by 10.

<sup>4</sup>Based on Bank of Canada published information.

## Revenues

Revenues for the Dairy Products Sector (USA) totalled \$636.5 million for the quarter ended June 30, 2011, an increase of \$162.2 million compared to the \$474.3 million for the corresponding quarter last fiscal year. The inclusion of the DCI Acquisition, combined with additional revenues from a more favourable dairy ingredients market, increased revenues by approximately \$121 million in the quarter. Also contributing to the increase was a US\$0.34 higher average block market per pound of cheese as compared to the same quarter last fiscal year, therefore increasing revenues by approximately \$73 million. The appreciation of the Canadian dollar eroded approximately \$32 million in revenues.

## EBITDA

For the quarter ended June 30, 2011, EBITDA totalled \$80.8 million, an increase of \$15.8 million or 24.3% in comparison to \$65.0 million for the same quarter last fiscal year. The inclusion of the DCI Acquisition and initiatives undertaken in current and prior fiscal years with regards to operational efficiencies offset increased fuel and other operational costs, thereby increasing EBITDA by approximately \$11 million in comparison to the same quarter last fiscal year. The block market per pound of cheese increased steadily throughout the quarter, having a positive effect on the realization of inventories. A US\$0.34 higher average block market per pound of cheese compared to the same quarter last fiscal year, created a positive effect on the absorption of fixed costs. The relationship between the average block market per pound of cheese and the cost of milk as raw material was less favourable in the quarter in comparison to the same period last fiscal year. Finally, a more favourable dairy ingredients market in comparison to the same quarter last fiscal year also increased EBITDA. These market factors combined had a positive impact of approximately \$10 million on EBITDA. The appreciation of the Canadian dollar eroded approximately \$5 million in EBITDA.

## Grocery Products Sector

(in millions of CDN dollars)

Fiscal years	2012	2011				2010 <sup>1</sup>		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	32.3	31.9	36.8	37.8	34.8	35.5	39.0	41.8
EBITDA	3.4	0.1	3.6	4.7	4.2	2.6	4.3	4.3

<sup>1</sup>Based on CGAAP

### Revenues

Revenues for the Grocery Products Sector totalled \$32.3 million for the quarter, a \$2.5 million decrease compared to the same quarter last fiscal year. This decrease is mainly due to lower sales volumes in all regions.

### EBITDA

EBITDA for the Grocery Products Sector amounted to \$3.4 million, a \$0.8 million decrease compared to the same quarter last fiscal year. This decrease is the result of higher ingredients cost and lower sales volumes, offsetting manufacturing efficiencies and cost reductions.

## OUTLOOK

The Dairy Products Division (Canada) continues to focus on maximizing benefits that can be derived from the consolidation of manufacturing and distribution activities announced at the end of fiscal 2010. The Division will continue to invest in projects in order to increase its presence in the growing speciality cheese category. Also, the Division continues to review overall activities to increase operational efficiencies.

The Dairy Products Division (Europe) will continue to focus on volume growth, while obtaining milk supply at prices competitive with the selling price of cheese.

The Dairy Products Division (Argentina) will seek to maintain current volumes in the export markets, while trying to mitigate increasing milk costs as raw material and remaining competitive with the selling price of cheese. The Division will also continue to focus on further volume growth in the domestic market.

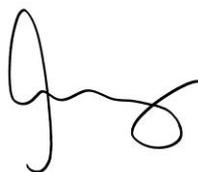
The Dairy Products Sector (USA) continues to focus on improving operational efficiencies, as well as evaluating opportunities at our newly acquired DCI Acquisition. Capital expenditures at one of our California facilities have been completed and we are currently serving our West Coast customers directly from this facility, rather than through third-party warehousing. The Division will continue to monitor dairy markets and take necessary actions to benefit our operations. We participated in the Consolidated Stabilization and Marketing Plan Hearings, held on June 30 and July 1, 2011, in California, to oppose petitioners' request to consider amendments to the class 4B milk pricing formula. A decision following these hearings is expected to be rendered by the end of this August. These amendments, if any, are expected to be effective September 1, 2011.

The Grocery Products Sector will continue to focus on increasing sales volumes and developing sales in the US market.

Our goal remains to continue to improve efficiencies and pursue growth internally and through acquisitions.



Lino Saputo  
Chairman of the Board



Lino A. Saputo, Jr.  
President and Chief Executive Officer  
and Vice Chairman of the Board

August 2, 2011

**NOTICE**

The condensed interim consolidated financial statements of Saputo Inc. for the three-month periods ended June 30, 2011 and 2010 have not been reviewed by an external auditor.

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EARNINGS**

(in thousands of CDN dollars, except per share amounts)  
(unaudited)

For the three-month periods ended June 30

	2011	2010
<b>Revenues</b>	<b>\$ 1,638,995</b>	<b>\$ 1,436,148</b>
Operating costs excluding depreciation and amortization (Notes 5 & 18)	<b>1,429,367</b>	1,244,834
<b>Earnings before interest, depreciation, amortization and income taxes</b>	<b>209,628</b>	191,314
Depreciation and amortization (Notes 7 & 18)	<b>24,609</b>	26,347
<b>Operating income</b>	<b>185,019</b>	164,967
Interest on long-term debt	<b>5,719</b>	5,802
Other financial charges (Note 16)	<b>547</b>	817
<b>Earnings before income taxes</b>	<b>178,753</b>	158,348
Income taxes (Note 18)	<b>52,187</b>	46,630
<b>Net earnings</b>	<b>\$ 126,566</b>	<b>\$ 111,718</b>
<b>Earnings per share (Note 13)</b>		
Net earnings		
Basic	<b>\$ 0.62</b>	\$ 0.54
Diluted	<b>\$ 0.61</b>	\$ 0.53

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands of CDN dollars)  
(unaudited)

For the three-month periods ended June 30

	2011	2010
<b>Net earnings</b>	<b>\$ 126,566</b>	<b>\$ 111,718</b>
Other comprehensive income (loss):		
Exchange differences arising from foreign currency translation	(10,285)	45,184
<b>Total other comprehensive income (loss)</b>	<b>(10,285)</b>	<b>45,184</b>
<b>Comprehensive income</b>	<b>\$ 116,281</b>	<b>\$ 156,902</b>

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands of CDN dollars, except common shares)

(unaudited)

For the three-month period ended June 30, 2011

	Share capital		Reserves			Retained Earnings	Total Shareholders' Equity
	Common Shares (in thousands)	Amount	Foreign Currency Translation	Stock-Based Compensation	Total Reserves		
<b>Balance, beginning of period</b>	203,830	\$ 617,675	\$ (60,930)	\$ 33,384	\$ (27,546)	\$ 1,482,506	\$ 2,072,635
Net earnings	-	-	-	-	-	126,566	126,566
Other comprehensive (loss)	-	-	(10,285)	-	(10,285)	-	(10,285)
Comprehensive income	-	-	-	-	-	-	116,281
Dividends declared	-	-	-	-	-	(32,620)	(32,620)
Stock-based compensation (Note 12)	-	-	-	2,140	2,140	-	2,140
Shares issued under stock option plan	640	13,814	-	-	-	-	13,814
Amount transferred from contributed surplus to share capital upon exercise of options	-	2,621	-	(2,621)	(2,621)	-	-
Excess tax benefit that results from the excess of the deductible amount over the compensation cost recognized	-	-	-	458	458	-	458
Shares repurchased and cancelled	(472)	(1,439)	-	-	-	(19,395)	(20,834)
Shares repurchased and not cancelled	(65)	(188)	-	-	-	(2,785)	(2,983)
<b>Balance, end of period</b>	203,933	\$ 632,473	\$ (71,215)	\$ 33,361	\$ (37,854)	\$ 1,554,272	\$ 2,148,891

For the three-month period ended June 30, 2010

	Share capital		Reserves			Retained Earnings	Total Shareholders' Equity
	Common Shares (in thousands)	Amount	Foreign Currency Translation	Stock-Based Compensation	Total Reserves		
<b>Balance, beginning of period</b>	207,426	\$ 584,749	\$ -	\$ 32,681	\$ 32,681	\$ 1,363,181	\$ 1,980,611
Net earnings	-	-	-	-	-	111,718	111,718
Other comprehensive income	-	-	45,184	-	45,184	-	45,184
Comprehensive income	-	-	-	-	-	-	156,902
Dividends declared	-	-	-	-	-	(30,138)	(30,138)
Stock-based compensation (Note 12)	-	-	-	2,015	2,015	-	2,015
Shares issued under stock option plan	340	5,919	-	-	-	-	5,919
Amount transferred from contributed surplus to share capital upon exercise of options	-	1,411	-	(1,411)	(1,411)	-	-
Excess tax benefit that results from the excess of the deductible amount over the compensation cost recognized	-	-	-	373	373	-	373
<b>Balance, end of period</b>	207,766	\$ 592,079	\$ 45,184	\$ 33,658	\$ 78,842	\$ 1,444,761	\$ 2,115,682

## CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

(in thousands of CDN dollars)  
(unaudited)

	June 30, 2011	March 31, 2011	April 1, 2010
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 19,235	\$ 77,491	\$ 54,819
Receivables	494,474	460,807	367,069
Inventories (Note 4)	714,657	662,194	566,754
Income taxes	1,342	12,623	5,940
Prepaid expenses and other assets	41,445	50,940	29,494
Portfolio investment (Note 6)	-	27,743	-
	1,271,153	1,291,798	1,024,076
<b>Portfolio investment (Note 6)</b>	-	-	41,343
<b>Property, plant and equipment (Notes 7 &amp; 18)</b>	1,071,023	1,079,083	1,093,695
<b>Goodwill (Note 8)</b>	844,361	843,862	716,695
<b>Trademarks and other intangibles (Note 8)</b>	337,636	339,038	316,613
<b>Other assets (Note 9)</b>	19,611	19,081	25,821
<b>Deferred income taxes (Note 18)</b>	5,543	5,469	1,108
	<b>\$ 3,549,327</b>	<b>\$ 3,578,331</b>	<b>\$ 3,219,351</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Bank loans (Note 10)	\$ 100,945	\$ 170,589	\$ 61,572
Accounts payable and accrued liabilities	565,367	573,779	471,106
Dividends payable	32,620	-	-
Income taxes	138,904	198,638	149,377
	837,836	943,006	682,055
<b>Long-term debt (Note 11)</b>	378,225	378,480	380,790
<b>Other liabilities</b>	30,226	32,727	35,392
<b>Deferred income taxes (Note 18)</b>	154,149	151,483	140,503
	1,400,436	1,505,696	1,238,740
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	632,473	617,675	584,749
Reserves	(37,854)	(27,546)	32,681
Retained earnings	1,554,272	1,482,506	1,363,181
	2,148,891	2,072,635	1,980,611
	<b>\$ 3,549,327</b>	<b>\$ 3,578,331</b>	<b>\$ 3,219,351</b>

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of CDN dollars)  
(unaudited)

For the three-month periods ended June 30

	2011	2010
<b>Cash flows related to the following activities:</b>		
<b>Operating</b>		
Net earnings	\$ 126,566	\$ 111,718
Items not affecting cash and cash equivalents		
Stock option plan	2,140	2,015
Interest expense	6,266	6,619
Income tax expense	52,187	46,630
Depreciation and amortization	24,609	26,347
Gain on disposal of property, plant and equipment	(50)	(52)
Deferred income taxes	3,123	7,749
Deferred share units	1,276	625
Funding of employee plans in excess of costs	(2,605)	(870)
	213,512	200,781
Changes in non-cash operating working capital items	(90,557)	(46,520)
Cash generated from operating activities	122,955	154,261
Interest paid	(11,905)	(12,279)
Income taxes paid	(96,137)	(26,915)
Net cash generated from operating activities	14,913	115,067
<b>Investing</b>		
Business acquisition	(2,797)	-
Proceeds on disposal of portfolio investment	27,720	-
Additions to property, plant and equipment	(20,061)	(31,338)
Proceeds on disposal of property, plant and equipment	116	959
Other assets and other liabilities	(712)	5,068
	4,266	(25,311)
<b>Financing</b>		
Bank loans	(68,830)	(27,190)
Issuance of share capital	13,814	5,919
Repurchase of share capital	(20,834)	-
	(75,850)	(21,271)
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(56,671)</b>	<b>68,485</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(1,585)</b>	<b>835</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>77,491</b>	<b>54,819</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 19,235</b>	<b>\$ 124,139</b>

# NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts are in thousands of CDN dollars except information on options and shares)  
(unaudited)

## NOTE 1 CORPORATE INFORMATION

Saputo Inc. is a publicly traded company incorporated and domiciled in Canada. The Company's shares are listed on the Toronto Stock Exchange under the symbol "SAP." The Company produces, markets and distributes a wide array of dairy products, in Canada, the United States, Argentina and Europe, and bakery products in Canada. The address of the Company's head office is 6869, Metropolitan Blvd. East, St-Léonard Québec, Canada, H1P 1X8. The condensed interim consolidated financial statements ("financial statements") of the Company for the period ended June 30, 2011 comprise the financial results of the Company and its subsidiaries.

The financial statements for the period ending June 30, 2011 have been authorized for issuance by the Board of Directors on August 2, 2011.

## NOTE 2 BASIS OF PRESENTATION

### **Statement of compliance**

The financial statements of the Company have been prepared in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") and IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS"). Accordingly, certain disclosure requirements that are necessary in the preparation of an annual report in compliance with IFRS have been omitted or condensed. The accounting methods and policies adopted by the Company for this interim period represent the methods and policies that will be used throughout the year.

The Company's previously filed interim and annual financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP"), which differs in several respects from the requirements of currently enacted IFRS. Accordingly the Company has modified certain of its accounting policies in order to comply with IFRS and provided certain disclosures for the understanding of the condensed interim financial statements and which are normally included in the annual financial statements prepared in accordance with IFRS. For further information on the impact of the amended accounting policies, please refer to Note 18. In certain instances, IFRS accounting policies are consistent with previous CGAAP, as presented in the March 31, 2011 annual consolidated financial statements, and have not been repeated.

The disclosures found in this quarterly filing are of greater detail than required by IAS 34, Interim Financial Reporting due to the superseding requirements of IFRS 1, First Time Adoption of International Financial Reporting Standards. Accordingly, quarterly publications from fiscal 2013 shall be presented in accordance with IAS 34, which will be condensed to a greater extent.

### **Basis of measurement**

The Company's financial statements have been prepared on a going concern basis and applying the historical cost principle except for:

- Any derivative financial instruments, which are measured at fair value.
- The portfolio investment, which is measured at fair value.
- Liabilities under the deferred share unit plan, which are measured at fair value.
- Pension liabilities have been measured in accordance with IAS 19, Employee Benefits.

### **Function and presentation currency**

The Company's financial statements are presented in Canadian dollars, which is also the consolidated entity's functional currency. All financial information has been rounded to the nearest thousand unless stated otherwise.

## NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

### **CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The following policies do not constitute a full set of accounting policies but instead, reflect only policies that have changed under the adoption of IFRS.

### **INVENTORIES**

Finished goods, raw materials and work in process are valued at the lower of cost and net realizable value, cost being determined under the first in, first out method. Borrowing costs are allocated to qualifying inventory where inventory takes a substantial period of time to reach finished goods status.

### **PORTFOLIO INVESTMENT**

The portfolio investment is recorded at fair value with subsequent changes, if any, recorded in other comprehensive income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the equity reserves (where applicable) is reclassified to net earnings.

### **PROPERTY, PLANT & EQUIPMENT**

Property, plant & equipment are stated at cost less accumulated depreciation and any impairment losses and are depreciated using the straight-line method over their estimated useful lives as described below:

Buildings	15 to 40 years
Furniture, machinery and equipment	3 to 20 years
Rolling stock	5 to 10 years based on kilometres traveled

Where components of an item of building or furniture, machinery and equipment are individually significant, they are accounted for separately within the categories described above.

Assets held for sale are recorded at the lower of their carrying amount or fair value less costs to dispose, and no depreciation is recorded. Assets under construction are not depreciated. Borrowing costs are capitalized to qualifying property, plant & equipment where the period of construction of those assets takes a substantial period of time to get ready for their intended use. Borrowing costs, if incurred, are added to the cost of those assets until such time as the assets are substantially ready for their intended use.

For the purposes of impairment testing, property, plant & equipment are tested at the cash-generating unit ("CGU") level. Write-downs are included in "depreciation and amortization" presented on the statements of earnings.

### **IMPAIRMENT OF LONG-LIVED ASSETS**

Long-lived assets are subject to an "indicators of impairment" test at each reporting period. In the event of an indication of impairment, the asset or group of assets (referred to as CGU's), for which identifiable cash flows that are largely independent of the cash inflows from other assets or group of assets exist, are tested for impairment. An impairment loss is recorded where the carrying value exceeds the recoverable amount. The recoverable amount is defined as the greater of fair value less costs to sell and value in use.

### **GOODWILL, TRADEMARKS AND OTHER INTANGIBLE ASSETS**

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Trademarks and other intangibles are initially recorded at fair value, regarded as their cost less accumulated amortization and/or any impairments. Goodwill and trademarks are not amortized; however they are tested for impairment annually or more frequently if events or changes in circumstances indicate that the assets might be impaired. The carrying value of the group of CGU's including goodwill is compared with its respective recoverable amounts (higher of fair value less costs to sell and value in use) and an impairment loss, if any, is recognized for the excess. The carrying value of intangibles is also compared to their recoverable amounts. Other intangibles are amortized using the straight-line method over their useful lives which vary from 5 to 15 years and are reviewed for indicators of impairment prior to each reporting period.

For purposes of impairment testing, goodwill, trademarks and other intangibles are tested as follows:

- Goodwill is allocated and tested at the CGU or the group of CGU's level. As goodwill is monitored internally at each operating segment level, the group of CGU's is considered the operating segment that is tested. Please refer to Note 8 for further details on operating segments.
- Trademarks and other intangibles are tested at the CGU level.

Amortization methods and periods for other intangibles are reviewed at each financial year-end.

## NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### **BUSINESS COMBINATIONS**

The Company accounts for its business combinations using the purchase method of accounting. Under this method, the Company allocates the purchase price to tangible and intangible assets acquired and liabilities assumed based on estimated fair values at the date of acquisition, with the excess of the purchase price amount allocated to goodwill.

Debt issuance costs directly related to the funding of business acquisitions are included in the carrying value of the debt and are amortized over the related debt term using the effective interest rate method. Transaction costs are expensed as incurred.

### **EMPLOYEE FUTURE BENEFITS**

The cost of pension and other post-retirement benefits is actuarially determined annually on March 31 using the projected benefit method prorated based on years of service and using Management's best estimates of expected return on plan assets, which is based on market value, rates of compensation increase, retirement ages of employees and expected health care costs and other post retirement benefits. Interim calculations are based on Management assumptions and estimates which may differ from actual results. Current service costs, interest on obligations and expected return on assets are expensed in the year. In accordance with IFRS, actuarial gains or losses, the maximum amount recognized as an asset and the impact of the minimum funding requirements, are recorded directly in other comprehensive income (loss) without subsequent reclassification to the statements of earnings. The elements recorded in other comprehensive (loss) income will be remeasured on March 31, 2012. The average remaining service period of active participants covered by the pension plans is 11.8 years. The net pension expenditure under defined contribution pension plans is generally equal to the contributions made by the employer.

### **FOREIGN CURRENCY TRANSLATION**

The Company's functional currency is the Canadian dollar. Accordingly, the balance sheet accounts of foreign operations are translated into Canadian dollars using the exchange rates at the balance sheet dates. Statements of earnings accounts are translated into Canadian dollars using the average monthly exchange rates in effect during the periods. The foreign currency translation adjustment ("CTA") reserve presented in the condensed interim consolidated statements of comprehensive income and the condensed interim consolidated statements of shareholders' equity represents accumulated foreign currency gains (losses) on the Company's net investments in companies operating outside Canada. The change in the unrealized gains (losses) on translation of the financial statements of foreign operations account for the period resulted mainly from the fluctuation in value of the Canadian dollar as compared to the US dollar.

As described in Note 18, the Company has elected to apply the IFRS 1 exemption to reset its CTA reserve on April 1, 2010 (the Company's transition date) to nil.

Foreign currency accounts of the Company and its subsidiaries are translated using the exchange rates at the balance sheet dates for monetary assets and liabilities and the prevailing exchange rates at the time of transactions for income and expenses. Non-monetary items are translated at the historical exchange rates. Gains or losses resulting from this translation are included in operating costs.

	For the three-month periods ended June 30	
	2011	2010
Foreign currency gain (loss)	\$ 121	\$ (653)

### **STOCK-BASED COMPENSATION**

The Company offers equity settled stock-based compensation awards to certain employees within the organization in which options are granted over a five year vesting period with a ten-year expiration term. The fair value of each instalment of an award is determined separately and recognized over the vesting period. When stock options are exercised, any consideration paid by employees and the related compensation expense recorded as a stock-based compensation reserve are credited to share capital.

### **EARNINGS PER SHARE**

Basic earnings per share are based on the weighted-average number of shares outstanding during the period. In calculating the diluted earnings per share, the weighted average of the number of outstanding shares is adjusted to reflect the impact of the conversion of potential shares that may have a dilutive impact and is determined independently for each reporting period presented.

## NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### **INCOME TAXES**

The Company follows the "Balance Sheet Liability" method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on temporary difference between the carrying amount of an asset or liability in the consolidated balance sheet and its tax basis and are measured using the enacted or substantively enacted rates that are expected to apply when the asset is realized or the liability is settled. A deferred income tax asset is recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be used.

### **PROVISIONS**

Provisions are liabilities of uncertain timing or amount. A provision is recorded where significant and where a present legal or constructive obligation resulting from a past event exists that will result in a future outflow of economic benefits to settle the current obligation.

### **USE OF ESTIMATES AND JUDGEMENTS IN THE APPLICATION OF ACCOUNTING POLICIES**

In certain events, the preparation of the Company's financial statements requires Management to make certain judgements and estimates about transactions and carrying values that are fulfilled at a future date. Judgements and estimates are volatile by their nature and are continuously monitored by Management. A discussion of the judgements and estimates that could have a material effect on the financial statements is provided below.

### **SIGNIFICANT ESTIMATES AND JUDGEMENTS**

#### ***Allowance for Doubtful Accounts***

Management reviews its accounts receivable at the end of each reporting period and estimates balances deemed non-collectible in the future. This review requires the use of assumptions and takes into consideration certain factors, such as historical collection trends and past due accounts for each customer balance. In the event that future collections differ from provisions estimated, future earnings will be affected.

#### ***Income Taxes***

The Company is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the consolidated provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the results for the year and the respective current income tax and deferred income tax provisions in the year in which such determination is made.

#### ***Goodwill, Trademarks, Other Intangibles and Business Combinations***

Goodwill, trademarks and other intangibles have principally arisen as a result of business combinations. The purchase method, which also requires significant estimates and judgements, is used to account for these business combinations. As part of the allocation process in a business combination, estimated fair values are assigned to the net assets acquired, including trademarks and other intangibles. These estimates are based on forecasts of future cash flows, estimates of economic fluctuations and an estimated discount rate. The excess of the purchase price over the estimated fair value of the net assets acquired is then assigned to goodwill. In the event that actual net assets fair values are different from estimates, the amounts allocated to the net assets and specifically to trademarks and other intangibles could differ from what is currently reported. This would then have a pervasive impact on the carrying value of goodwill. Differences in fair values estimated would also have an impact on the amortization of definite life intangibles. The carrying value of goodwill, trademarks and other intangibles can be found in Note 8.

#### ***Property, Plant & Equipment***

Critical judgement is necessary in the selection and application of accounting policies and useful lives as well as the determination of which components are significant and how they are allocated. Management has determined the use of the straight line method of amortization is the most appropriate as its facilities are operating at a similar output potential on a year to year basis, which indicates that production is constant (please refer to the table above for further details on the useful lives of productive assets). It is Management's best estimate that the lives and policies adopted in the table above adequately reflect the flow of resources and the economic benefits required and derived in the use and servicing of these long-lived productive assets.

## NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### ***Impairment of Assets***

Significant estimates and judgements are required in testing goodwill, intangibles and other assets for impairment. Management uses estimates or exercises judgement in assessing indicators of impairment, defining a CGU, in forecasting future cash flows and in discount rates and earnings multipliers used for assessing fair value (less selling costs) or value in use. Estimates made for goodwill and intangibles can be found in Note 8. Other assets are tested only when indicators of impairment are present.

### ***Employee Future Benefits***

The Company is the sponsor to both defined benefit and defined contribution plans, which provide pension and other post-employment benefits to its employees. The determination of employee benefits cost is a process that contains a significant degree of estimation uncertainty with regards to future employee levels, discount rates and expected return on plan assets. These components play a key role in the determination of the current period's employee benefits cost. As these components are highly subjective and are significantly likely to change in the future as an employee's remaining service life shortens, it is Management's judgement that these costs should not create undue volatility in the condensed interim consolidated statements of earnings, based on estimates and uncertainties that may not transpire, and should instead present these gains or losses in the condensed interim statements of other comprehensive income (loss). Several estimates and assumptions are required with regards to the determination of the defined benefit expense and its related obligation, such as the expected return on assets available to fund the obligation, the discount rate used in determining the carrying value of the obligation, the expected health care cost trend rate, the expected mortality rate, etc. Actual results will normally differ from expectations.

### ***EFFECT OF NEW ACCOUNTING STANDARDS NOT YET IMPLEMENTED***

The IASB made several revisions as part of its continuing improvements project. Below are a summary of the relevant standards affected and a discussion of the amendments.

#### ***IFRS 9, Financial Instruments***

This new standard will be applicable for reporting periods on or after January 1, 2013 and details the measurement and recognition criteria for the identification and recording of financial assets and liabilities. The Company has not yet determined the impact of adoption of this new standard on the financial statements.

#### ***IFRS 10, Consolidated Financial Statements***

This new standard will be applicable for reporting periods on or after January 1, 2013 and will replace IAS 27, Consolidated and Separate Financial Statements. IFRS 10 establishes principles for the preparation and presentation of consolidated financial statements. The Company has not yet determined the impact of adoption of this new standard on the financial statements.

#### ***IFRS 12, Disclosure of Interests in Other Entities***

This new standard establishes disclosure requirements for interests held in other entities and is applicable for reporting periods on or after January 1, 2013. The Company has not yet determined the impact of adoption of this new standard on the financial statements.

#### ***IFRS 13, Fair Value Measurement***

This new standard establishes a single framework for the measurement of fair value and is applicable January 1, 2013. The Company has not yet determined the impact of adoption of this new standard on the financial statements.

## NOTE 4 INVENTORIES

	June 30, 2011	March 31, 2011	April 1, 2010
Finished goods	\$ 475,516	\$ 451,959	\$ 374,482
Raw materials, work in process and supplies	239,141	213,235	194,381
Inventory write-downs	-	(3,000)	(2,109)
	\$ 714,657	\$ 662,194	\$ 566,754

## NOTE 5 OPERATING COSTS EXCLUDING DEPRECIATION AND AMORTIZATION

	For the three-month periods ended June 30	
	2011	2010
Changes in inventories of finished goods and work in progress	\$ (43,961)	\$ (40,928)
Raw materials and consumables used	1,178,861	1,013,126
Foreign exchange (gain) loss	(121)	653
Employee benefits expense	160,166	152,820
Selling costs	81,754	72,638
Other general and administrative costs	52,668	46,525
Total operating costs	\$ 1,429,367	\$ 1,244,834

## NOTE 6 PORTFOLIO INVESTMENT

The Company held a 21% interest in Dare Holdings Ltd. (Dare) which was recorded as a portfolio investment. On June 30, 2010, the Company exercised its option requiring that the shares it held in Dare be repurchased at their fair market value pursuant to the terms and conditions of the shareholders' agreement entered into between the parties. The valuator issued its report with respect to the fair market value of the shares in May 2011 and the Company's shares were repurchased for \$27,720,000 on June 17, 2011 on a without prejudice basis. The Company has commenced legal proceedings to contest the value at which its shares were repurchased.

## NOTE 7 PROPERTY, PLANT AND EQUIPMENT

For the three-month period ended June 30, 2011						
	Land	Buildings	Furniture, machinery and equipment	Rolling stock	Held for sale	Total
<b>Cost</b>						
As at March 31, 2011	\$ 35,543	\$ 394,883	\$ 1,295,769	\$ 7,538	\$ 11,917	\$ 1,745,650
Additions	-	468	19,593	-	-	20,061
Disposals	-	-	(178)	(67)	-	(245)
Foreign currency adjustments	(91)	(1,257)	(5,462)	(25)	-	(6,835)
As at June 30, 2011	\$ 35,452	\$ 394,094	\$ 1,309,722	\$ 7,446	\$ 11,917	\$ 1,758,631
<b>Accumulated depreciation</b>						
As at March 31, 2011	-	125,405	533,674	5,353	2,135	666,567
Depreciation	-	3,087	20,055	197	-	23,339
Disposals	-	-	(112)	(67)	-	(179)
Foreign currency adjustments	-	(295)	(1,818)	(6)	-	(2,119)
As at June 30, 2011	\$ -	\$ 128,197	\$ 551,799	\$ 5,477	\$ 2,135	\$ 687,608
<b>Net book value at June 30, 2011</b>	<b>\$ 35,452</b>	<b>\$ 265,897</b>	<b>\$ 757,923</b>	<b>\$ 1,969</b>	<b>\$ 9,782</b>	<b>\$ 1,071,023</b>

For the year ended March 31, 2011						
	Land	Buildings	Furniture, machinery and equipment	Rolling stock	Held for sale	Total
<b>Cost</b>						
As at April 1, 2010	\$ 38,920	\$ 382,480	\$ 1,242,504	\$ 13,117	\$ 6,008	\$ 1,683,029
Business acquisitions	-	4,620	6,180	-	-	10,800
Additions	-	12,891	99,000	209	-	112,100
Disposals	-	-	(13,081)	(5,682)	(6,008)	(24,771)
Transfers	(2,887)	(9,030)	-	-	11,917	-
Foreign currency adjustments	(490)	3,922	(38,834)	(106)	-	(35,508)
As at March 31, 2011	\$ 35,543	\$ 394,883	\$ 1,295,769	\$ 7,538	\$ 11,917	\$ 1,745,650
<b>Accumulated depreciation</b>						
As at April 1, 2010	-	111,145	469,777	8,412	-	589,334
Depreciation	-	15,064	84,927	877	-	100,868
Disposals	-	-	(14,785)	(3,904)	-	(18,689)
Transfers	-	(2,135)	-	-	2,135	-
Foreign currency adjustments	-	1,331	(6,245)	(32)	-	(4,946)
As at March 31, 2011	\$ -	\$ 125,405	\$ 533,674	\$ 5,353	\$ 2,135	\$ 666,567
<b>Net book value at March 31, 2011</b>	<b>\$ 35,543</b>	<b>\$ 269,478</b>	<b>\$ 762,095</b>	<b>\$ 2,185</b>	<b>\$ 9,782</b>	<b>\$ 1,079,083</b>

The net book value of property, plant and equipment under construction amounts to \$53,902,000 as at June 30, 2011 (\$38,056,000 as at March 31, 2011).

The assets held for sale relate mainly to land and buildings in Canada and in the United States as a result of certain plant closures.

## NOTE 8 GOODWILL, TRADEMARKS AND OTHER INTANGIBLES

### IMPAIRMENT TESTING OF CASH-GENERATING UNITS

#### Goodwill

Regarding goodwill impairment testing, Management considers the segments below to be CGU groups as they represent the lowest levels at which goodwill is monitored for internal management purposes. Accordingly, goodwill has been allocated to each group of CGU's as follows:

Allocation of goodwill	June 30, 2011	March 31, 2011	April 1, 2010
Dairy Products - CEA <sup>1</sup>	\$ 269,128	\$ 269,191	\$ 269,429
Dairy Products - USA	405,803	405,241	277,836
Grocery Products	169,430	169,430	169,430
	\$ 844,361	\$ 843,862	\$ 716,695

<sup>1</sup> Canada, Europe and Argentina

For purposes of goodwill impairment testing, the asset's recoverable amount has been estimated using an earnings multiplier which consists of an analysis of the EBITDA and market capitalizations of certain comparable companies in Canada, the US and abroad which is then used as a surrogate (for the expected performance of the industry and the Company) in the denominator of the earnings multiplier. The earnings multiplier has been determined as the enterprise value (share price multiplied by outstanding shares, less cash, plus debt) divided by EBITDA for each selected comparable company.

#### Trademark and Other Intangibles

Regarding trademark and other intangibles, these assets are included in the following CGU's as follows:

Allocation of trademarks and other intangibles	June 30, 2011	March 31, 2011	April 1, 2010
Dairy Products - CEA <sup>1</sup>	\$ 286,418	\$ 287,465	\$ 291,671
Dairy Products - USA	49,218	49,573	22,942
Grocery Products	2,000	2,000	2,000
	\$ 337,636	\$ 339,038	\$ 316,613

<sup>1</sup> Canada, Europe and Argentina

For purposes of trademark and other intangible assets impairment testing, recoverable amounts have been estimated using discounted cash flows based on the following key assumptions:

- **Revenues:** Management bases its cash flow forecast on sales of the prior year for a given trademark and adds a growth factor.
- **Growth factor:** Management uses a revenue growth factor based on expected increases in inflation and revenue for the products under trademark for a given division. Future growth rates may be different from actual due to unforeseeable market and economic conditions.
- **Royalty rate:** Represents the goodwill attached to a product and has been evaluated on acquisition of the trademark by valuers. This royalty rate serves to increase the cash flows expected from a given product as a representation of the product's elasticity of demand. This royalty rate is assessed for adequacy through a review of gross margin and EBITDA margin on a yearly basis.
- **Cumulative eligible capital:** Future cash flows can vary from current expectations in the event of future modifications to taxation legislation.
- **Discount rate:** The cash flows are discounted using a pre-tax discount. Discount rates have been established initially based on independent third party valuations on the acquisition date and have been subsequently reviewed by Management to ensure appropriateness by monitoring fluctuations in the Company's weighted average cost of capital for acquisitions.

## NOTE 9 OTHER ASSETS

	June 30, 2011	March 31, 2011	April 1, 2010
Taxes receivable	\$ 12,106	\$ 12,148	\$ 15,893
Other	7,505	6,933	9,928
	\$ 19,611	\$ 19,081	\$ 25,821

## NOTE 10 BANK LOANS

The Company has available bank credit facilities providing for unsecured bank loans as follows:

Credit Facilities	Maturity	Available for use			Amount drawn		
		Canadian Currency Equivalent	Base Currency		June 30, 2011	March 31, 2011	April 1, 2010
North America-US Currency	<sup>1</sup> December 2012	144,675	150,000	USD	\$ -	\$ 9,015	\$ -
North America-CDN Currency	<sup>1</sup> December 2012	356,865	370,000	USD	70,434	135,000	30,000
Argentina	<sup>2</sup> Yearly	82,429	366,512	ARS	25,077	23,270	28,213
Germany	<sup>3</sup> Yearly	7,003	5,000	EUR	5,434	3,304	-
United Kingdom	<sup>3</sup> Yearly	10,845	7,000	BPS	-	-	3,359
		601,817			\$ 100,945	\$ 170,589	\$ 61,572

<sup>1</sup> Bear monthly interest at rates ranging from lender's prime rates plus a maximum of 0.25% or LIBOR or banker's acceptance rate plus 0.50% up to a maximum of 1.125% depending on a financial ratio of the Company.

<sup>2</sup> Bear monthly interest at local rate and can be drawn in ARS or USD.

<sup>3</sup> Bear monthly interest at base rate plus 1.50% or LIBOR-EURIBOR plus 1.50%.

## NOTE 11 LONG-TERM DEBT

	June 30, 2011	March 31, 2011	April 1, 2010
Unsecured senior notes <sup>1</sup>			
8.41%, issued in November 1999 and due in November 2014 (US\$50,000,000)	\$ 48,225	\$ 48,480	\$ 50,790
5.34%, issued in June 2009 and due in June 2014	110,000	110,000	110,000
5.82%, issued in June 2009 and due in June 2016	220,000	220,000	220,000
	\$ 378,225	\$ 378,480	\$ 380,790

Principal repayments are as follows:

	June 30, 2011	March 31, 2011	April 1, 2010
Less than 1 year	\$ -	\$ -	\$ -
1-2 years	-	-	-
2-3 years	110,000	-	-
3-4 years	48,225	158,480	-
4-5 years	220,000	-	160,790
More than 5 years	-	220,000	220,000
	\$ 378,225	\$ 378,480	\$ 380,790

<sup>1</sup> Interest payments are semi-annual

## NOTE 12 SHARE CAPITAL

### Share Option Plan

The Company has an equity settled share option plan to allow for the purchase of common shares by key employees and officers of the Company. The total number of common shares which may be issued pursuant to this plan cannot exceed 28,000,000 common shares. As at June 30, 2011, 11,913,140 common shares are issuable under this plan. Options granted prior to July 31, 2007 may be exercised at a price equal to the closing quoted value of the shares on the day preceding the grant date. Options granted thereafter may be exercised at a price not less than the weighted average market price for the five trading days immediately preceding the date of grant. The options vest at 20% per year and expire ten years from the grant date.

Changes in the number of outstanding options are as follows:

	June 30, 2011		June 30, 2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	8,674,238	\$ 22.62	9,413,750	\$ 20.13
Options granted	1,244,780	\$ 43.22	1,753,233	\$ 29.32
Options exercised	(639,980)	\$ 21.58	(339,722)	\$ 17.43
Options cancelled	(119,984)	\$ 22.76	(71,532)	\$ 18.91
Balance, end of period	9,159,054	\$ 25.42	10,755,729	\$ 21.72

The exercise price of the options granted in fiscal 2012 is \$43.22, which corresponds to the weighted average market price for the five trading days immediately preceding the date of grant (\$29.32 in 2011).

The average fair value for the options granted in fiscal 2012 was estimated at \$8.96 per option (\$6.28 in 2011), using the Black-Scholes option pricing model with the following assumptions:

	June 30, 2011	March 31, 2011
<b>Weighted average:</b>		
Risk-free interest rate	2.65%	2.70%
Expected life of options	5 years	5 years
Volatility	21.66%	23.96%
Dividend rate	1.24%	1.70%

The volatility percentage is calculated on historical share prices over the average expected life of each instalment which has an overall average life of five-years.

A compensation expense of \$2,140,000 (\$1,896,000 net of income taxes) relating to stock options was recorded in the statement of earnings for the three-month period ended June 30, 2011 and \$2,015,000 (\$1,806,000 net of income taxes) was recorded for the three-month period ended June 30, 2010.

## NOTE 13 EARNINGS PER SHARE

	For the three-month periods ended June 30			
	2011		2010	
Net earnings	\$	126,566	\$	111,718
Weighted average number of common shares outstanding		203,856,154		207,639,124
Dilutive options		3,769,939		2,232,464
Weighted average diluted number of common shares outstanding		207,626,093		209,871,588
Basic earnings per share	\$	0.62	\$	0.54
Diluted earnings per share	\$	0.61	\$	0.53

When calculating diluted earnings per share for the three-month period ended June 30, 2011, no options (1,746,760 for the three-month period ended June 30, 2010) were excluded from the calculation because their exercise price is higher than the average market value for the period.

Shares purchased under the normal course issuer bid were excluded from the calculation of earnings per share as of the date of purchase.

## NOTE 14 EMPLOYEE PENSIONS AND OTHER BENEFIT PLANS

The Company provides defined benefits and defined contribution pension plans as well as other benefits plans such as health insurance, life insurance and dental plans to eligible employees and retired employees. Pension and other benefits plan obligations are affected by factors such as discount rates, adjustments arising from plan amendments, changes in assumptions and experience gains or losses. The costs are based on a measurement of the pension and other benefits plan obligations and the pension fund assets.

Total benefit costs are as follows:

	For the three-month periods ended June 30			
	2011		2010	
Defined benefit pension plan expense	\$	627	\$	903
Defined contribution pension plan expense		4,626		4,289
Other benefit plan expenses		141		146
	\$	5,394	\$	5,338

## NOTE 15 SEGMENTED INFORMATION

### Segmented Information

	For the three-month periods ended June 30	
	2011	2010
<b>Revenues<sup>1</sup></b>		
Dairy Products		
CEA	\$ 970,168	\$ 926,989
USA	636,529	474,314
	<b>1,606,697</b>	<b>1,401,303</b>
Grocery Products	32,298	34,845
	<b>\$ 1,638,995</b>	<b>\$ 1,436,148</b>
<b>Earnings before interest, depreciation amortization and income taxes</b>		
Dairy Products		
CEA	\$ 125,335	\$ 122,149
USA	80,846	64,961
	<b>206,181</b>	<b>187,110</b>
Grocery Products	3,447	4,204
	<b>\$ 209,628</b>	<b>\$ 191,314</b>
<b>Depreciation and amortization</b>		
Dairy Products		
CEA	\$ 12,854	\$ 12,971
USA	10,381	11,990
	<b>23,235</b>	<b>24,961</b>
Grocery Products	1,374	1,386
	<b>\$ 24,609</b>	<b>\$ 26,347</b>
<b>Operating income</b>		
Dairy Products		
CEA	\$ 112,481	\$ 109,178
USA	70,465	52,971
	<b>182,946</b>	<b>162,149</b>
Grocery Products	2,073	2,818
	<b>\$ 185,019</b>	<b>\$ 164,967</b>
Interest	6,266	6,619
<b>Earnings before income taxes</b>	<b>178,753</b>	<b>158,348</b>
Income taxes	52,187	46,630
<b>Net earnings</b>	<b>\$ 126,566</b>	<b>\$ 111,718</b>

<sup>1</sup> Revenues are attributable to countries based upon manufacturing origin

## NOTE 16 OTHER FINANCIAL CHARGES

	June 30, 2011	June 30, 2010
Finance costs	\$ 637	\$ 898
Finance income	(90)	(81)
	\$ 547	\$ 817

## NOTE 17 DIVIDENDS

During the quarter, the Board of Directors approved \$32,619,588 in dividends (\$30,137,701 in the first quarter of fiscal 2011) or \$0.16 per share (\$0.145 per share in the first quarter of fiscal 2011).

## NOTE 18 TRANSITION TO IFRS

The Company's financial statements for the quarter ended June 30, 2011 represent the first condensed interim financial statements prepared under IFRS, applying the requirements of IAS 34, Interim Financial Reporting and IFRS 1, First Time Adoption of Financial Reporting Standards. The accounting policies described in Note 3 have been applied consistently to both current and prior periods, except for the obligatory exceptions and exemptions as discussed below. It should be noted that an entity is not permitted to retroactively adjust estimates with knowledge of the outcome of past events on the transition date. As such, estimates previously made under CGAAP have not been revised for IFRS purposes. Additionally, certain exemptions are available to an entity adopting IFRS for the first time and have been utilized by the Company as described below.

### IFRS 1 EXEMPTIONS

**Business Combinations** - IFRS 1 allows an entity to apply IFRS 3, Business Combinations either retrospectively to all combinations, retrospectively from a certain point forward or prospectively to acquisitions occurring after the Company's transition date (April 1, 2010). The Company has elected to apply IFRS 3 prospectively. Accordingly, no accounting adjustments have been made to business combinations prior to the date of transition resulting in no restatement of pre-transition goodwill or intangibles.

**Share-Based Payment Transactions** - IFRS 1 allows an entity to apply IFRS 2, Share-based Payment, to equity instruments that were granted on or before November 7, 2002. IFRS 1 also permits an entity to apply IFRS 2 to equity instruments that were granted after November 7, 2002 and vested before the later of (a) the date of transition to IFRS and (b) January 1, 2005. The Company has elected to apply this exemption and apply IFRS 2 to equity instruments that were granted after November 7, 2002 and not fully vested at the date of transition to IFRS.

**Property, Plant and Equipment** – IFRS 1 allows an entity to fair value its property, plant & equipment on the date of transition and then subsequently use that value as deemed cost. The Company has elected not to fair value its property, plant & equipment on transition.

**Employee Benefits** - In accordance with IAS 19, Employee Benefits, an entity may elect to use a "corridor" approach that leaves some actuarial gains and losses unrecognized. Retrospective application of this approach requires an entity to split the cumulative actuarial gains and losses from the inception of the plan until the date of transition to IFRS into a recognized portion and an unrecognized portion. However, a first-time adopter may elect to recognize all cumulative actuarial gains and losses at the date of transition to IFRS, even if it uses the corridor approach for later actuarial gains and losses. If a first-time adopter uses this election, it shall apply it to all plans. The Company has elected to reverse its actuarial losses to retained earnings on transition.

**The Effects of Changes on Foreign Exchange Rates** – IFRS 1 allows an entity to recognize all cumulative translation adjustments of foreign operations in Retained Earnings, effectively zeroing out the pre-transition balance. In using this exemption, any foreign exchange currency losses accumulated up to the date of transition are accounted for directly in retained earnings without recognition in the statement of earnings. The Company has elected to reset its cumulative foreign currency translation account to nil on transition.

## NOTE 18 TRANSITION TO IFRS (CONT'D)

**Borrowing Costs** - IFRS 1 allows an entity to apply IAS 23, Borrowing Costs, prospectively where it represents a new accounting policy. The Company has elected to apply this standard prospectively for property, plant & equipment, as it represents a new policy for that category. Accordingly, no interest has been capitalized to property, plant & equipment that were constructed prior to March 31, 2010.

### RECONCILIATION OF CGAAP TO IFRS

IFRS 1 requires an entity to explain the impact of the transition from CGAAP to IFRS on the entity's financial position, financial performance and cash flows. Accordingly, the Company is required to provide reconciliations for April 1, 2010, June 30, 2010 and March 31, 2011 for its consolidated statement of shareholders' equity and to provide reconciliations for its March 31, 2011 and June 30, 2011 consolidated comprehensive income. The following information provides a reconciliation of CGAAP to IFRS for the required balances and periods:

#### Reconciliation of Consolidated Statements of Shareholders' Equity

	Ref.	March 31, 2011	June 30, 2010	April 1, 2010
Shareholders' equity - CGAAP		\$ 2,125,641	\$ 2,164,654	\$ 2,028,598
Employee benefit adjustment	1	(89,649)	(89,620)	(90,149)
Deferred income tax expense	2	4,344	3,678	3,599
25% permanent difference on intangibles	2	(16,376)	(16,376)	(16,376)
Property, plant and equipment - componentization	3	53,790	54,652	54,939
Currency translation adjustment	5	(958)	(1,306)	-
Expensing of acquisition costs	6	(4,157)	-	-
Shareholders' equity - IFRS		\$ 2,072,635	\$ 2,115,682	\$ 1,980,611

#### Reconciliation of Consolidated Statements of Earnings

	For the three-month period ended June 30, 2010			
	CGAAP	Ref.	Adjustment	IFRS
Revenues	\$ 1,436,148		\$ -	\$ 1,436,148
Operating costs excluding depreciation and amortization	1,245,363	7	(529)	1,244,834
Earnings before interest, depreciation, amortization and income taxes	190,785		529	191,314
Depreciation and amortization	26,060	3	287	26,347
Operating income	164,725		242	164,967
Interest on long-term debt	5,802		-	5,802
Other financial charges	817		-	817
Earnings before income taxes	158,106		242	158,348
Income taxes	46,709	8	(79)	46,630
Net earnings	\$ 111,397		\$ 321	\$ 111,718

## NOTE 18 TRANSITION TO IFRS (CONT'D)

### Reconciliation of Consolidated Statements of Earnings

	For the year ended March 31, 2011			
	CGAAP	Ref.	Adjustment	IFRS
Revenues	\$ 6,025,470		\$ -	\$ 6,025,470
Operating costs excluding depreciation and amortization	5,235,330	7	1,859	5,237,189
Earnings before interest, depreciation, amortization and income taxes	790,140		(1,859)	788,281
Depreciation and amortization	104,832	3	1,149	105,981
Operating income	685,308		(3,008)	682,300
Devaluation of portfolio investment	13,600		-	13,600
Interest on long-term debt	23,211		-	23,211
Other financial charges	663		-	663
Earnings before income taxes	647,834		(3,008)	644,826
Income taxes	196,715	8	(1,940)	194,775
Net earnings	\$ 451,119		\$ (1,068)	\$ 450,051

### Reconciliation of Consolidated Statements of Comprehensive Income

	For the three-month period ended June 30, 2010			
	CGAAP	Ref.	Adjustment	IFRS
Net earnings	\$ 111,397		\$ 321	\$ 111,718
Other comprehensive income:				
Exchange differences arising from foreign currency translation	46,490	5	(1,306)	45,184
Total other comprehensive income	46,490		(1,306)	45,184
Comprehensive income	\$ 157,887		\$ (985)	\$ 156,902

### Reconciliation of Consolidated Statements of Comprehensive Income

	For the year ended March 31, 2011			
	CGAAP	Ref.	Adjustment	IFRS
Net earnings	\$ 451,119		\$ (1,068)	\$ 450,051
Other comprehensive (loss):				
Exchange differences arising from foreign currency translation	(58,159)	5	(2,771)	(60,930)
Reclassification of actuarial loss	-	1	(1,181)	(1,181)
Total other comprehensive (loss)	(58,159)		(3,952)	(62,111)
Comprehensive income	\$ 392,960		\$ (5,020)	\$ 387,940

## NOTE 18 TRANSITION TO IFRS (CONT'D)

### RECONCILING NOTES

#### 1. Employee Benefit Adjustment

The Company sponsors both defined benefit pension plans and other benefit plans, in both Canada and the US. At the time of transition, IFRS requires certain adjustments to the Company's balance sheet resulting from divergences with CGAAP as follows:

- **Unamortized Transitional Asset / (Liability)** – CGAAP permitted an entity to carry an unamortized transitional asset (or liability), as a result of the first-time adoption of Section 3461, Employee Future Benefits. There is no concept of unamortized transitional assets under IFRS, resulting in a write-down of any remaining unamortized asset (or liability).
- **Unamortized Past Service Cost** – CGAAP permitted an entity to carry unamortized past service costs resulting from improvements for which the costs were amortized in future years. IFRS requires that vested past service costs be fully recognized on the balance sheet through the income statement at the time the improvement was granted. As a result, and in accordance with IFRS, the existing vested past service unamortized balance was fully recognized on the Company's balance sheet at the transition date.
- **Actuarial Gains and Losses** – IFRS 1 permits an entity to recognize all unamortized actuarial gains and losses at the date of transition to IFRS in retained earnings. The Company has elected to apply this transitional option. An entity must then determine whether to account for future actuarial gains or losses either:
  1. Entirely in expense;
  2. Partially recognized in expense based on the corridor approach which results in only a portion of actuarial gains or losses recognized in income (current method used by the Company);
  3. Fully recognized in Other Comprehensive Income (Loss) without subsequent recycling to expense, an option not permitted under CGAAP.

The Company has elected as an accounting policy to fully recognize future actuarial gains or losses in other comprehensive income upon transition to IFRS.

- **IFRIC 14** – The IFRIC issued an interpretation in 2008 to IAS 19, which requires an entity to include in its determination of the defined benefit pension liability, the present value of the plan's minimum funding requirements including letters of credit and clauses not permitting a right of refund on surplus contributions. CGAAP however, was not clear on the amount to include in the minimum fund requirement.

Accordingly, on April 1, 2010, the Company decreased pension assets by \$64,451,000 that are not recognized by IFRS, increased its liabilities by \$25,698,000, according to IFRS requirements, and decreased retained earnings by \$90,149,000 representing the entire impact of the adoption of IAS 19, Employee Benefits on the Company's opening balance sheet.

For the period ended June 30, 2010 the Company recorded a \$529,000 (\$398,000 net of income taxes) decrease in expenses over CGAAP as a result of the application of the differing IFRS pension calculation requirements. Similarly, for the period ended March 31, 2011 the Company's pension expense decreased by \$500,000 as a result of a \$2,116,000 (\$1,584,000 net of income taxes) reduction of expenses due to the differences in calculations between CGAAP and IFRS discussed above and the classification of \$1,616,000 (\$1,181,000 net of income taxes) of actuarial losses in other comprehensive income (loss) due to the Company having elected to record all actuarial gains or losses directly in other comprehensive income (loss) without subsequent recycling to net earnings.

## NOTE 18 TRANSITION TO IFRS (CONT'D)

The adjustments to retained earnings as a result of the pension divergences on April 1, 2010, for the quarter ended June 30, 2010 and the year ended March 31, 2011 can be summarized as follows:

	<b>Adjustments</b>
IFRS Adjustments on April 1, 2010 to reduce retained earnings	<b>\$ 90,149</b>
Pension expense savings for the period ended June 30, 2010 resulting from differing IFRS calculation requirements	(529)
<b>Adjustments to June 30, 2010 CGAAP reported balances</b>	<b>\$ 89,620</b>
IFRS Adjustments on April 1, 2010 to reduce retained earnings	<b>\$ 90,149</b>
Pension expense savings for the period ended March 31, 2011 resulting from differing IFRS calculation requirements	(500)
<b>Adjustments to March 31, 2011 CGAAP reported balances</b>	<b>\$ 89,649</b>

### 2. Deferred Income Taxes

Though no conceptual differences exist in the calculation of deferred income taxes under CGAAP and IFRS, the adjustments found under this caption are the result of differences in the carrying values in other reconciling divergences.

The net deferred income tax liability in the April 1, 2010 opening IFRS balance sheet has been adjusted to decrease the balance by \$24,317,000 to reflect differences between the accounting and tax cost basis for the adjustment noted in the employee benefits adjustment (reconciling note 1) and the stock-based compensation adjustment (reconciling note 9). The net deferred income tax liability has also been adjusted to increase the balance by \$20,718,000 to reflect the increase to property, plant & equipment resulting from componentization (as described in reconciling note 5). The resulting impact of this divergence on retained earnings is an increase of \$3,599,000.

The net deferred income tax liability on March 31, 2011 and June 30, 2010 has been decreased by \$24,176,000 and \$24,237,000 to reflect the adjustments made to the employee benefits expense and stock-based compensation as discussed above. The net deferred income tax liability on March 31, 2011 and June 30, 2010 has also been increased by \$19,129,000 and \$21,356,000 to reflect the adjustments made to depreciation as a result of componentization as discussed in reconciling note 3 below.

Furthermore, under Canadian Income Tax Act requirements, an entity includes 75% of the cost of an intangible asset in the cumulative eligible capital account. Under CGAAP the tax basis for eligible capital expenditures represents the balance in the cumulative eligible capital account plus 25% of the carrying amount. Under IFRS, the tax basis is not increased by 25% of the carrying amount. As a result of this difference in calculation of the tax basis of these assets, the Company will increase deferred income tax liabilities and decrease retained earnings by \$16,376,000 each to account for these taxable temporary differences as at April 1, 2010.

The adjustments to the net deferred income tax liability for the year ended March 31, 2011 and the period ended June 30, 2010 and at April 1, 2010 can be summarized as follows:

<b>Deferred income tax liability</b>				
(Increase) decrease	Ref.	March 31, 2011	June 30, 2010	April 1, 2010
Pension adjustments	1	\$ 23,772	\$ 23,794	\$ 23,894
Stock-based compensation	9	404	443	423
Intangible assets	2	(16,376)	(16,376)	(16,376)
Componentization	3	(19,129)	(21,356)	(20,718)
		<b>\$ (11,329)</b>	<b>\$ (13,495)</b>	<b>\$ (12,777)</b>

## NOTE 18 TRANSITION TO IFRS (CONT'D)

### 3. Property, Plant and Equipment Componentization

Under IFRS, an entity is required to “componentize” individual items of property, plant and equipment into its various significant parts for purposes of separate depreciation of each significant component using useful lives and amortization methods that are more closely reflective of their respective service potential. Practice under CGAAP, however, has been to depreciate property, plant & equipment according to category only.

As a result of the analysis performed by Management, an adjustment to increase property, plant & equipment and increase retained earnings by \$54,939,000 has been made on April 1, 2010 as, in general, property, plant & equipment components have useful lives that are longer than the overall lives used previously under CGAAP.

For the three-month period ended June 30, 2010 and the year ended March 31, 2011, the revised componentization calculation led to an overall increase in depreciation expense of \$287,000 (\$77,000 after taxes) and \$1,149,000 (\$309,000 after taxes) respectively.

As a result of the April 1, 2010 opening balance sheet componentization adjustment in the Dairy Products Division (USA), the Company incurred an additional CTA expense of \$509,500 at June 30, 2010 and \$2,038,000 at March 31, 2011. As a result of the \$1,149,000 adjustment to depreciation explained above for the year ended March 31, 2011, the Company recorded a gain of \$181,000 on foreign currency translation. The net impact of the CTA resulting from the componentization adjustments on fixed assets for March 31, 2011 is \$1,857,000 (\$510,000 on June 30, 2010).

The adjustments to property, plant & equipment for March 31, 2011, June 30, 2010 and April 1, 2010 can be summarized as follows:

	March 31, 2011	June 30, 2010	April 1, 2010
Opening balance sheet adjustments	\$ 54,939	\$ 54,939	\$ 54,939
Depreciation adjustments for the period	(1,149)	(287)	-
Subtotal - componentization adjustments	53,790	54,652	54,939
CTA adjustments for the period	(1,857)	(510)	-
Adjustments to CGAAP balances	\$ 51,933	\$ 54,142	\$ 54,939

### 4. Presentation of Deferred Income Taxes

CGAAP required an entity to present deferred income tax balances into a current and long-term portion. IFRS requires deferred income taxes be presented as long-term and in certain instances permits netting between deferred income tax assets and liabilities. Accordingly, the Company has reclassified all deferred income tax assets and liabilities as long-term.

### 5. Currency Translation Adjustment

IFRS 1 allows an entity the option of resetting their CTA on transition (April 1, 2010). The Company has exercised this option and an adjustment was therefore made to the April 1, 2010 reported CTA under CGAAP to reset the account to nil. This resulted in a decrease to retained earnings of \$188,045,000.

As a result of the April 1, 2010 componentization adjustment in the Dairy Products Division (USA) discussed above, an additional CTA loss of \$509,500 at June 30, 2010 and \$2,038,000 at March 31, 2011 was recorded. Furthermore, as a result of the restatement of certain other balances during the year relating to the adjustments discussed above, the Company recorded a foreign currency loss of \$1,436,000 in CTA on March 31, 2011.

Additionally, the deferred income tax adjustment calculated in reconciling note 2 has resulted in a CTA loss of \$796,000 for the period ended June 30, 2010 and a CTA gain of \$703,000 for the period ended March 31, 2011.

## NOTE 18 TRANSITION TO IFRS (CONT'D)

The adjustments that have impacted CTA can be summarized as follows:

	March 31, 2011	June 30, 2010
Componentization - US opening balance sheet adjustments	\$ 2,038	\$ 510
Fiscal year 2011 foreign currency adjustments	1,436	-
CTA - deferred income taxes on US adjustments	(703)	796
Total CTA loss	\$ 2,771	\$ 1,306

The fiscal year 2011 foreign currency adjustments on March 31, 2011 include an adjustment of \$1,813,000 that pertains to a reclassification of shareholders' equity accounts that has no impact on the reconciliation of condensed interim consolidated statement of shareholders' equity.

### 6. Acquisition Costs

As part of the acquisition of all of the outstanding shares of Fairmount Cheese Holdings, Inc. on March 25, 2011, the Company capitalized certain acquisition costs to goodwill as permissible under CGAAP. The acquisition costs reflect legal, accounting fees and other transaction costs that cannot be capitalized under IFRS and must be expensed immediately in the period incurred. Accordingly, the Company will decrease goodwill and retained earnings on March 31, 2011 by \$5,789,000 (\$4,157,000 net of taxes).

### 7. Operating Costs

The "operating costs" caption replaces CGAAP's caption of "cost of sales, selling and administrative expenses" and has been adjusted as a result of the divergences discussed above as follows:

	Ref.	March 31, 2011	June 30, 2010
Decrease to pension expense	1	\$ (2,116)	\$ (529)
CTA on certain fiscal 2011 adjustments	5	(1,813)	-
Acquisition costs	9	5,788	-
Total increase to operating costs		\$ 1,859	\$ (529)

### 8. Income Taxes

As a result of the IFRS adjustments discussed above, the tax savings for the year ended March 31, 2011 and the period ended June 30, 2010 can be summarized as follows:

	Ref.	March 31, 2011	June 30, 2010
Tax expense on pension adjustments	1	\$ 532	\$ 131
Tax recovery on componentization adjustments	3	(840)	(210)
Tax recovery on acquisition costs	6	(1,632)	-
Total tax recovery relating to operating costs		\$ (1,940)	\$ (79)

### 9. Stock-based Compensation

For share options that vest in instalments, IFRS requires the use of the graded vesting method which requires that each instalment be treated as a separate grant with its own separate fair value and amortized over its corresponding vesting period. CGAAP, however, allows an entity the option of either using the graded vesting method or the straight-line method which uses a single pool approach and recognizes expenses equally, over the expected vesting period. Under CGAAP, the Company was using the straight-line method for its grants that vest over a five-year period.

On transition however, the Company was required to decrease its opening retained earnings and increase stock-based compensation reserve by \$4,160,000 to reflect the adoption of the graded vesting model which results in an accelerated expensing of stock-based compensation costs in the initial two years of a grant and less in the remaining three.

For the period ended June 30, 2010 and March 31, 2011, the graded vesting method did not result in a material discrepancy with the stock-based compensation expense recorded in the June 30, 2010 and March 31, 2011 financial results prepared under CGAAP and therefore prior reported balances have not been adjusted.

## NOTE 18 TRANSITION TO IFRS (CONT'D)

The previously reported weighted average number of common shares outstanding used to determine the diluted earnings per share for the period ended June 30, 2010 was adjusted from 2,141,811 under CGAAP to 2,234,464 under IFRS. The diluted earnings per share, for the period ending June 30, 2010 were not impacted by this adjustment.

### **10. Reconciliation of Statement of Cash Flows**

Under CGAAP, interest paid and income taxes paid were disclosed as supplemental information in the consolidated statement of cash flows. IFRS, however, requires an entity to present these items separately within the cash flow statement as their own separate line items. Accordingly, the Company has separately presented interest paid and income taxes paid in operating cash flows. The transition to IFRS has not led to any reclassifications between operating, investing or financing activities in comparison to those presented under CGAAP and therefore no reconciliation of the statement of cash flows has been presented.